MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2018/2019

BFN2044 – BANK MANAGEMENT

(All sections / Groups)

31st MAY 2019
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 3 pages with 4 questions only.

2. Attempt ALL FOUR questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answer in the Answer Booklet provided.

Question 1 (25 marks)

(a) Banks devoted a significant portion of their asset in investment portfolios to avoid relying on loan income. Explain **SIX (6)** key roles of investments in banking institution.

(12 marks)

(b) Securitization is gaining popularity among banking institutions nowadays. What are securitized assets and why have they grown so rapidly over the past two decades?

(7 marks)

(c) What are the **SIX (6)** factors that influenced the growth and mix of bank loans?

(6 marks)

Question 2 (25 marks)

(a) Ariba Bank Berhad provided you with the following Income and Expense Statement.

Ariba Bank Income and Expense Statement 2018

	RM '000
Interest Fees on Loans	62
Interest Dividends on Securities	11
Total Interest Income	73
Interest Paid on Deposits	49
Interest on Nondeposit Borrowings	6
Total Interest Expense	55
Net Interest Income	18
Provision for Loan Losses	2
Noninterest Income and Fees	7
Noninterest Expenses:	
Salaries and Employee Benefits	10
Overhead Expenses	5
Other Noninterest Expenses	3
Total Noninterest Expenses	18
Net Income Before Taxes and Security Gains or Losses	5
Taxes	1
Securities Gains (or Losses), Net of Taxes	1
Net Income After Tax	5

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You are also given the following information:

Net Loans	RM 640,000
Cash and Due from Bank	RM 120,000
Total Asset	RM 1000,000
Total Equity Capital	RM 80,000

Based on the above statement, calculate the following ratios:

(i) Net Interest Margin (5 marks)
(ii) Net Noninterest Margin (3 marks)
(iii) Net Profit Margin (2 marks)
(iv) Asset Utilization (2 marks)
(v) Equity Multiplier (2 marks)
(vi) Return on Asset (ROA) (2 marks)
(vii) Return on Equity (ROE) (2 marks)

(b) EAZY Bank's expected stream of dividends over the next three years is as follows:

Year	Expected Dividend Per Share (RM)
2019	2.50
2020	3.50
2021	4.00

The bank's stock can be sold for RM20 at the end of three years. Based on the information given, what is the estimated stock price if the discount rate is 12 percent?

(7 marks)

Question 3 (25 marks)

(a) A Treasury bond currently carries a yield to maturity of 7 percent and a market price of RM1161.68. If the bond promises to pay RM100 in interest annually for five years, what is its current duration?

Assuming Bank Niaga holds RM15 million in this bonds and having a similar duration. If interest rates suddenly rise from 6 percent to 7 percent, what percentage change should occur in the bonds' market price?

(13 marks)

(b) Suppose that a bank estimates its total deposits and total loans for the next six months in millions of dollars to be the following:

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Month	Estimated Total Deposits (RM million)	Estimated Total Loans (RM million)
July	112	87
August	132	95
September	121	102
October	147	113
November	151	101
December	139	124

Under the sources and uses of funds approach, when does this bank face liquidity deficits?

(12 marks)

Question 4 (25 marks)

(a) Explain how banks use the following methods to price business loans:

(i) Cost-plus loan pricing
(ii) Price leadership pricing model
(iii) Below-prime market pricing

(11 marks)

(b) Critically discuss the principal types of loans made by banks.

(14 marks)

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